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RUEHAC/AMEMBASSY ASUNCION 5401  
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SUBJECT: CHOICE OF DIGITAL TELEVISION STANDARD STILL ON HOLD

REF: Brasilia 587 and previous

1. (U) During recent weeks the issue of which standard the Brazilian government will embrace for digital television (DTV) has faded from public view as President Lula has (so far) declined to endorse the recent MOU signed with the Japanese. Meanwhile, continued technical progress by industry on the ATSC standard has caught the notice of at least one GOB policymaker. In a May 7 interview with "O Estado de Sao Paulo" columnist Sonia Racy, Minister of Trade Luiz Furlan described his view of the state of play on DTV. Informal translation of the article is set forth in paragraph 2.

2. (U) BEGIN TEXT OF INFORMAL TRANSLATION

DIGITAL TV - SEARCHING FOR THE BEST LONG-TERM MODEL

Minister Luiz Furlan has avoided talking more explicitly about digital TV. In this interview, he agreed for the first time to clarify some points before traveling to Europe where among others, he will meet with investors interested in digital TV in Vienna.

President Lula, taking advantage of his participation in the European Community-Mercosul seminar taking place in Vienna, will participate in meetings to discuss proposals on the table regarding the process.

Furlan clearly stated that contrary to press reports, he was never in favor of any model. He also stated that there is no agreement with the Japanese, other than a memorandum of understanding that is non-binding and depends on decisions to be made by the Brazilian government.

And, he reiterated that the interest in building a semiconductor factory is linked to fiscal incentives under study.

Here are excerpts from his interview:

Q: You defended the European digital TV model. What happened?

A: I never defended any of the models. My position from the beginning has been that we should take advantage of this moment when

we have to choose new technology to attract new investments to Brazil, deepening the electro-electronic productive chain, one of the pillars of industrial policy, which we have not been able to consolidate to date. In the choice of the model, we can learn and dominate the new HDTV technology, which is very important.

Q: Why is this important?

A: It enables Brazilian research institutions and universities to adapt and perfect the Brazilian system of digital TV, based on foreign technology, but with improvements and development completed by around 30 domestic institutions, which conduct experiments in this area today. My position is to negotiate the one that is best for Brazil looking forward 20 years, not just make the best deal now.

Q: Several ministers went on this trip to Japan. Who was it that negotiated the digital TV agreement?

A: The trip was set up by President Lula, who decided that the contacts with the government would be made by Ambassador Celso Amorim. And that media contacts would be coordinated by me. That is what happened.

Q: Didn't the Brazilian government choose the Japanese model?

A: No. The choice will eventually be made by President Lula. There was a technical analysis showing that at this time the Japanese model is technically superior, because it is the latest. The Americans are modifying their model, which is older, and this could upgrade it beyond the Japanese model. Technically, all three existing models, over time, will have a certain equivalency. There are other factors like the size of the market. While the Japanese

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model exists only in Japan, the American model is in North America and Korea, and the European model is used in 56 countries.

Q: Are the Japanese going to build a semiconductor factory in Brazil?

A: Through a proposal of ours, one of the companies expressed an interest. But whether this kind of factory goes ahead will depend on a set of economic incentives provided by the Brazilian government. This indication was given by the Finance Ministry, and by President Lula himself in meetings held over time.

Q: Why is it so important for the country to have this kind of factory?

A: I can give an example. When the binational Brazil-Italy Embraer project for manufacture of the AMX jet went forward, one of the conditions imposed was that we would open the electronic systems source codes. That is why it was possible to manufacture a series of these military jets in Brazil and Italy, but what was learned with absorption of technology enabled Embraer to evolve and apply this technology to commercial jets. The same would happen with the absorption of digital TV technology.

Q: Is it possible to separate the choice of the digital TV model from the factory construction?

A: Construction of the factory is interdependent on the size of the market and export capacity. No one builds a factory for just the domestic market. What is being discussed is the system that will be adopted by the TV broadcasters, for content generation and signal emission. When we were in Japan, the Japanese industries informed us that they are producing TV sets using three technologies, that is, manufacturing for the United States, Europe and Japan. They showed us the insides of a flat screen demo TV, and truthfully, there are two plates that are taken out and substituted from one model to another. There is no difficulty in producing these sets. Now the factory is a condition. President Lula's guidance is that we will only close the deal when we have a guarantee of investment.

END TEXT OF INFORMAL TRANSLATION

13. (SBU) Comment. Furlan's comments are a counterpoint to Minister of Communications Helio Costa's repeated endorsement (indeed advocacy) of the Japanese standard. As post has noted previously (reftel), the longer the GoB decision process, the better for the ATSC standard. The soft-pedaling on the semiconductor issue may be an admission that the deal is not as cut and dry as previously portrayed by the GoB. Time will tell on this one.

Chicola